KINGSDALE Advisors

May 2023

DIVERSITY IN THE BOARDROOM

BIPOC Representation & Anti-Black Systemic Racism

- Each year we, at **Kingsdale Advisors**, review hundreds of management information circulars. We provide advice from the perspective of the proxy advisors Institutional Shareholder Services (ISS) and Glass Lewis; institutional investors with their own unique proxy voting policies; and governance experts like the Canadian Coalition for Good Governance.

- This year, we remain concerned about the pace at which boardroom diversity, specifically BIPOC (Black, Indigenous, and People of Colour) and racialized community representation, is proceeding. Broadly, across all CBCA corporations, just under 10% of board positions are held by directors who are members of visible minorities, Indigenous peoples or persons with a disability.

- When the spotlight focused on the Black Lives Matter movement in the wake of George Floyd's murder, we were clear that the real marker of change was not going to be the number of tweets corporations issued or the knee-jerk donations they made. The real test is what happens when the spotlight fades.

- Our goal in providing this report is to take a realistic stock of the situation and offer measures that can help uproot racial discrimination, including anti-Black systemic racism and not simply tread water. We can't eliminate issues that have existed for hundreds of years with a few new directors in a few annual meetings cycles.

- Our hope is that this report makes its way into the C-suite and boardrooms of corporate Canada, generates some discussion and, if we have done our job, makes more than a few leaders question what they have been doing to champion this important cause.

- We are available to present this, in detail, to your board, and ultimately formulate a strategy that will position you as a leader in ending anti-Black systemic racism and ensuring BIPOC representation across corporate Canada.

Racial Discrimination in the Workplace

40%

BIPOC employees report experiencing **workplace discrimination** related to their race/ethnicity

30%

BIPOC employees say they have experienced **job loss** due to race-related discrimination

1/3rd

BIPOC (32%), Hispanic (35%) and multiracial (33%) professionals say they **do not feel empowered** to speak out against workplace discrimination they've witnessed or experienced based on their race/ethnicity

Why Should You Care?

36%

The increased likelihood of ethnically diverse companies to **outperform others** in return on shareholder value

2.5x

Higher cash flow per employee for diverse companies

70%

The increased likelihood of companies with diversity to **capture more markets**

Anti-Black Systemic Racism Continues to Plague the Canadian Workplace

"The measure of a civilization is how it treats its weakest members."

-Hubert Humphrey

Anti-Black Systemic Racism

When it comes to discrimination and oppression, the Black community has been disproportionately disadvantaged

How is that?

Almost a 10th of Toronto is Black, and Black people make up **3.5% of Canada's population**.
Yet, as of 2023, Black directors comprised only 3.13% of directorships among the 200-plus companies in the S&P/TSX Composite Index

How does this relate to other communities?

By focusing first on the Black community's current status, challenges, and solutions we can offer, we can build a template for all racialized communities. Simply put, if we do well for Blacks, we will do well for all

Anti-Black Systemic Racism Continues to Plague the Canadian Workplace

Here's How:

Discrimination in Hiring

Reduced likelihood of Black Canadians succeeding in the job hiring process

Slower Career Progression

Impaired career progression and lower levels of integration for Black employees

Wage Gap

A significant wage gap exists for Black Canadians — even with the same education credentials as White Canadians

Impact in Numbers:
Anti-Black Systemic Racism in the Workplace

30%

Black Canadians are **less able to use networks** to find a job. They have fewer contacts vs. White Canadians, and those contacts are less likely to make a referral

12x

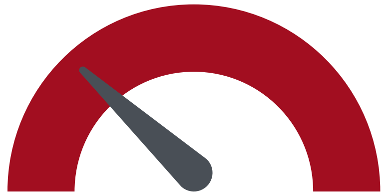
Fewer callbacks on resumes with a criminal record and "Black" names vs. the same "White" resume

2.5x

More reports of **unfair work practices**. Black employees report facing promotional discrimination 2.5x as often as White workers

A Fundamental Shift is Needed in the Boardroom and Executive Suite

Only **8.3% of CBCA public company** board seats are held by visible minorities.



Less than 1% of senior executives in TSX 60 companies are Black

In October 2022, only **2% directors at CBCA companies self-identified** as Indigenous

Diversity Challenges Compound When We Consider Gender

26%

Women now hold 26% of board seats among all TSX-listed companies disclosing the number of women directors on their boards

↑ **from 23.4% in 2021**

36%

At S&P/TSX 60 companies, women, hold 36% of all board seats.

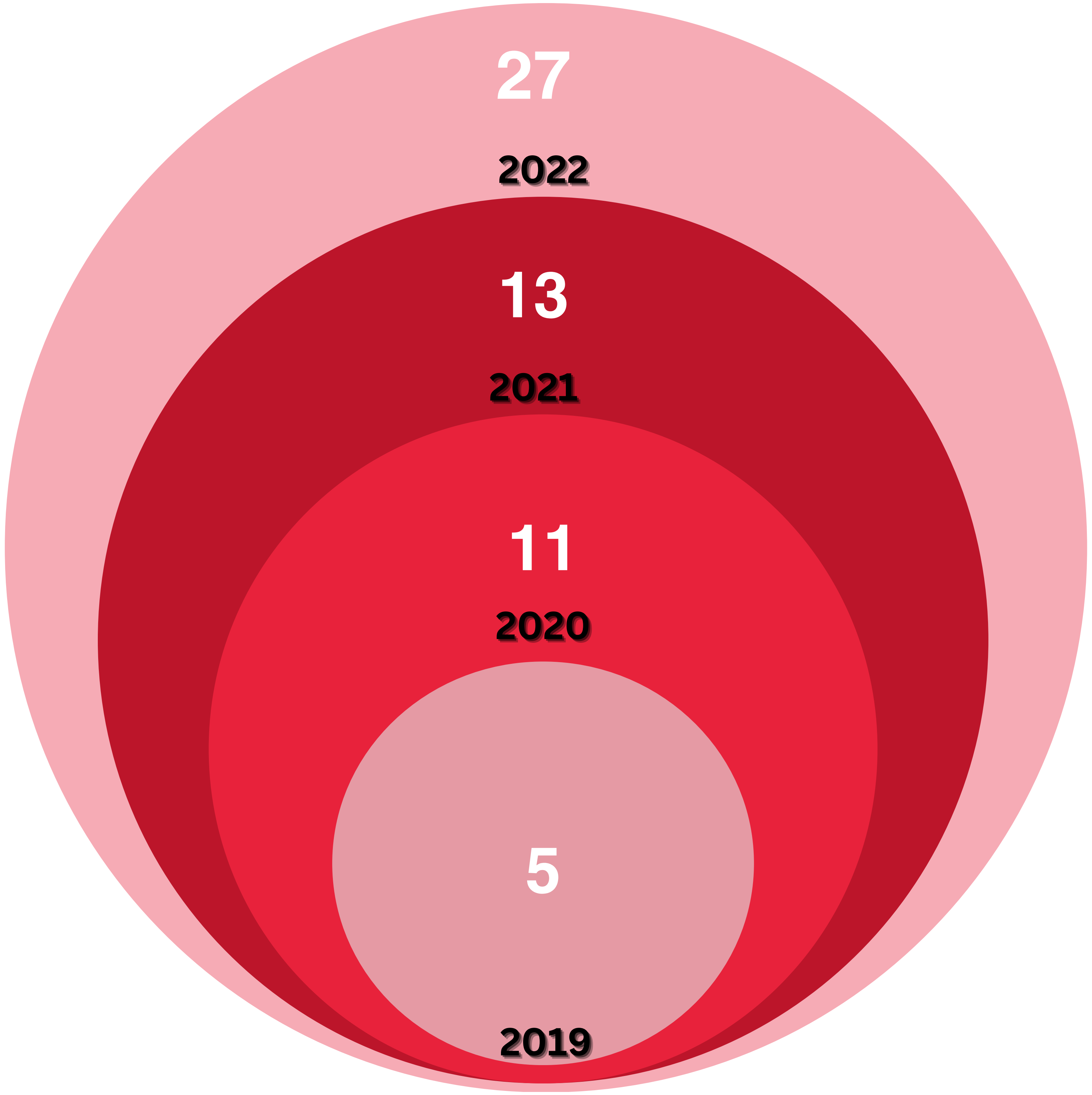
↑ **from 33.2% in 2021**

11.9%

Of TSX-listed companies, 11.9% have targets for women executive officers

↑ **from 10.7% in 2021**

TSX companies with at least 50% representation of women in director positions out of **245** CBCA corporations



Identifying the Change We Need

- Diversity has become a **catch all phrase**, creating the impression that something is being done to help BIPOC and racialized communities when little has changed. That's because, in reality, most of the focus on diversity so far has been around gender. Rather than diversity being the goal in and of itself, the goal should be **racial equity**.

- Now, our goal is to eliminate the systemic barriers negatively affecting the lives of BIPOC and racialized communities. Corporate Canada can add racial diversity to its boardrooms and executive suites by **declaring policies, setting specific targets, and holding itself accountable to reform the system**. We also need to ensure that Corporate Canada is willing to play a leadership role to tackle the issue at its core and continue meeting targets even when the obligations are met and the spotlight fades. **These lessons can then be applied to all underrepresented groups**. The solution is to use a **business-first mindset to combat a social issue** like eliminating anti-Black racist systemic barriers and all forms of discrimination affecting the BIPOC and racialized communities.

- How do we know can we make it happen? Because we have done it before. In 2015, the **30% Club set a target of 30% of the C-suite composed of women by 2022**. By 2022, there were 33% women on the boards of TSX Composite listed companies.

- We recommend the **BlackNorth Initiative's goals with at least 3.5% of executive and board** roles based in Canada being held by Black leaders by 2025. Already by 2023, signatories CIBC, National Bank, and Scotiabank had achieved this target.

Identifying the Change We Need

The topic of diversity reform is only uncomfortable if we approach it from an adversarial perspective — that to improve the lives of the BIPOC community we must take something away from someone else.

The reality is that diversity in the boardroom and executive suite is an opportunity, and that is proven with pure arithmetic. ***McKinsey has found that companies with the most ethnically and culturally diverse boards worldwide are 43% more likely to experience higher profits. They are also better equipped to make stronger decisions, anticipate challenges, assess risks, and identify opportunities.***

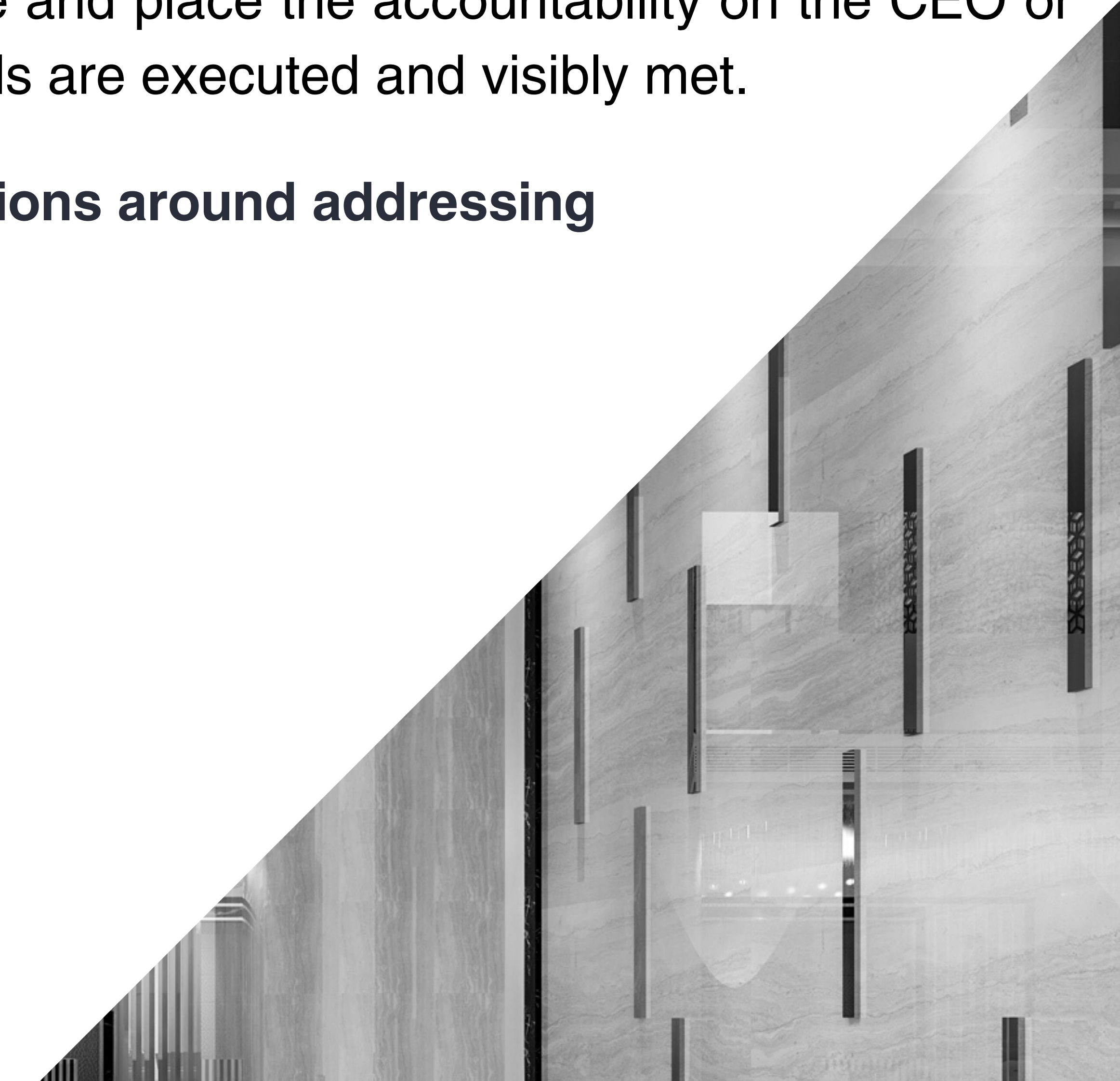
Wes Hall
Executive Chairman and Founder, Kingsdale Advisors
Founder, BlackNorth Initiative

Good News: We Can Unlock Progress As We Have Before

BlackNorth Initiative believes in an equitable future for Canada, where all Black Canadians achieve their full potential, free from systemic racial barriers. To achieve this, BlackNorth leverages the expertise of Canadian business leaders, partnerships with the public and social sectors, and the power of Black communities. With the CEO Pledge, the objective is to set measurable goals with a specific timeline and place the accountability on the CEO or the President for achieving them, with the help of their management and employees to ensure that the goals are executed and visibly met.

The BNI **CEO Pledge**, a public commitment by CEOs that their companies would **follow seven specific actions around addressing anti-Black racism**, includes:

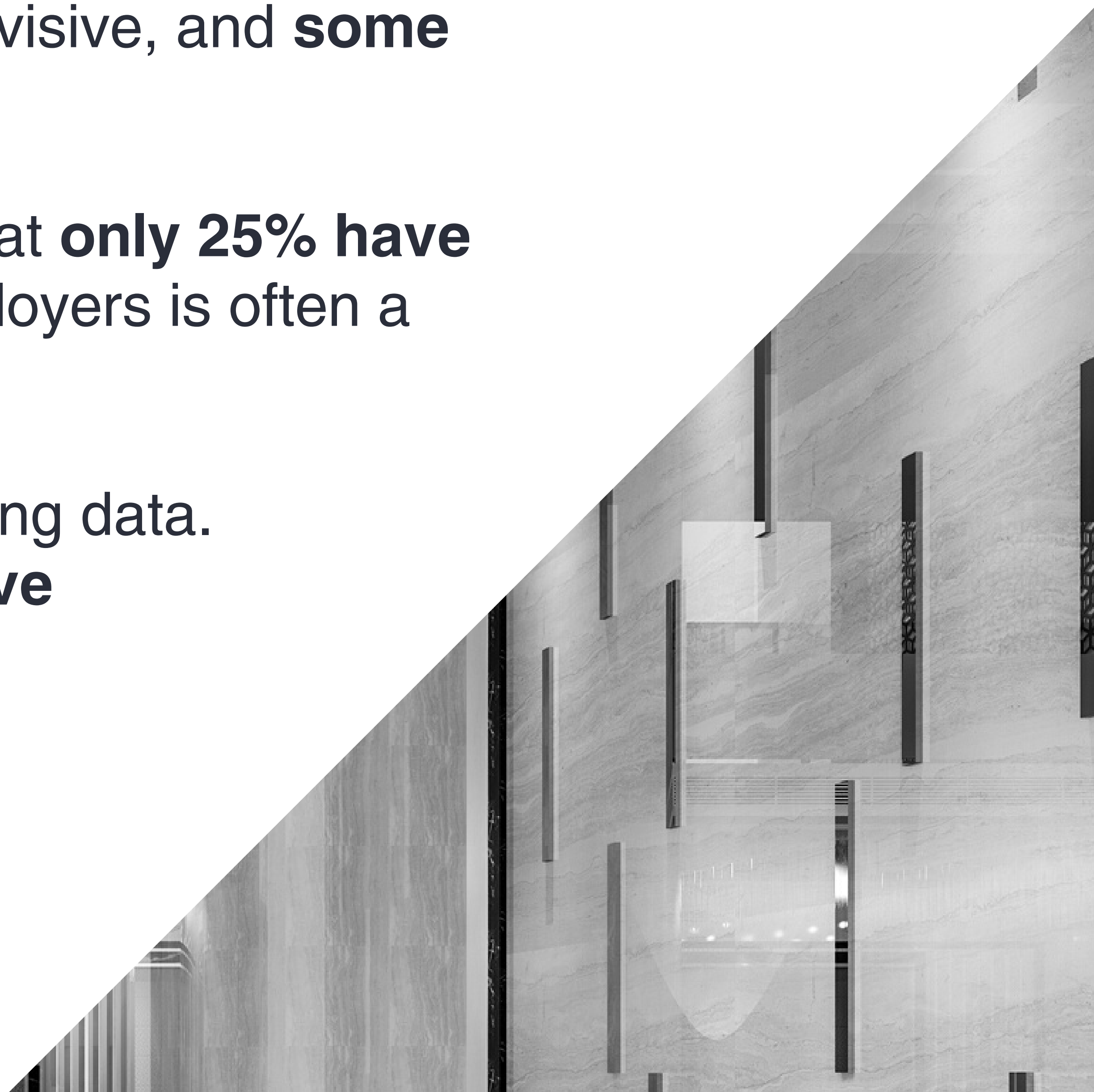
- setting goals that 3.5% of executive and board roles need to be held by Black leaders by 2025
- Black students need to make up at least 5% of the companies' student workforce
- 3% of donations and sponsorships be directed to Black communities
- establishing at least one diversity leadership council with Black leaders wherever possible, and sharing the plans for this council with the organization's board of directors



Source: https://blacknorth.ca/

Challenges in Collecting Data

- We've all heard the adage "what is measured gets done," but many investors are running into a problem: **how to tell the ethnicity of directors given the lack of diversity data.**
- Many top investors have prioritized gender diversity, which is easier to determine by name. However, when it comes to ethnic or racial diversity, there are concerns that the practice is divisive, and **some directors don't want to self-identify their family backgrounds.**
- The lack of diversity data occurs at all levels of an organization; one study found that **only 25% have sufficient data to calculate ethnicity pay gap** and employee distrust in their employers is often a reason for poor disclosure.
- Many firms also report GDPR and legal concerns as barriers to collecting and holding data. Data such as **race, sexual orientation, and disability are all considered sensitive according to GDPR.**



Source:
The Globe and Mail, Why boardroom-diversity data eludes its advocates, Sept. 2020; Financial Services Skills Commission, Diversity Data – The challenges of data collection and developing a culture of self-reporting, October 2020; PwC, Annual Corporate Directors Survey, 2020

How You Will be Evaluated

As per the Canada Business Corporations Act, CBCA companies must disclose information on the diversity of their board of directors and senior management teams to:

- Shareholders
- Corporations Canada

At the least, companies need to report information on the representation of these 4 groups: women, Indigenous People, people with disabilities, and visible minorities, or explain why they have not adopted targets for the designated groups. While the targets are not defined by the CBCA, companies must disclose:

- if they have a written policy around the identification and nomination of directors from the designated groups
- how the board or nominating committee considers diversity in identifying and nominating candidates for election or re-election for board and senior management
- whether the corporation has targets for representation on the board and among senior management for each of the designated groups and, if so, progress in achieving those targets
- the number and percentage of directors from each of the designated groups on the board and senior management
- whether the corporation has adopted term limits or other mechanisms for board renewal.

Source: https://ised-isde.canada.ca/site/corporations-canada/en/business-corporations/diversity-boards-directors-and-senior-management

Women

Indigenous People

People with Disabilities

Visible Minorities*

*A person in a visible minority group is someone (other than an Indigenous person as defined above) who is non-white in colour/race, regardless of place of birth. The visible minority group includes: Black, Chinese, Filipino, Japanese, Korean, South Asian-East Indian (including Indian from India; Bangladeshi; Pakistani; East Indian from Guyana, Trinidad, East Africa; etc.), Southeast Asian (including Burmese; Cambodian; Laotian; Thai; Vietnamese; etc.) non-white West Asian, North African or Arab (including Egyptian; Libyan; Lebanese; etc.), non-white Latin American (including indigenous persons from Central and South America, etc.), person of mixed origin (with one parent in one of the visible minority groups listed above), other visible minority group.

How You Will be Evaluated

ISS

Beginning in 2024, companies that are part of the S&P/TSX Composite Index must have:

At least 1
Racially or Ethnically Diverse Director

Where an issuer does not meet ISS' expectations, ISS will generally recommend voting against or withholding from the Chair of the Nominating Committee barring few exceptions such as extraordinary circumstance or a company being new to the index.

Stricter Policies - ISS' Socially Responsible Investment Proxy Voting Guidelines:

A specific tailored policy that a very limited number of shareholders follow, typically making up less than 1%-3% of an issuer's stock. It is a leading-edge indicator of meeting the dual objectives of socially responsible shareholders - financial and social gain.

Vote against or withhold from incumbent members of the nominating committee if:

the board is not comprised of at least 40% underrepresented gender identities; and
the board is not comprised of at least 20% racially or ethnically diverse directors

How You Will be Evaluated

Besides the designated groups, companies may also disclose information about any additional actions they believe contribute to the diversity of their board or senior management team.

INFORMATION TO DISCLOSE:

- term limits or a description of other mechanisms of board renewal
- a description of the written policy for identifying and nominating directors from the designated groups
- how the board or nominating committee considers diversity when appointing directors or senior management
- targets for board and senior management representation for each diversity group and information on the progress made to achieve those targets
- number and percentage of directors from each designated group on the board and senior management

Ontario Capital Markets Task Force recommends:

Amend Ontario securities legislation to require publicly listed issuers in Canada to set their own board and executive management diversity targets and implementation timelines, and annually provide data in relation to the representation of those who self-identify as women, BIPOC, persons with disabilities or LGBTQ+ on boards and executive management.

For greater clarity, this would apply to directors and executive management, the latter of which is defined as those who are executive officers or Named Executive Officers of publicly listed issuers. The Taskforce recommends that publicly listed issuers set an aggregated target of **50% for women and 30% for BIPOC, persons with disabilities and LGBTQ+**. Implementation of these targets should be completed within 5 years to meet the target for women and 7 years to meet the target for the other diversity groups, placing specific focus and **emphasis on representation of Black and Indigenous groups.**

How You Will be Evaluated

Nasdaq

Acceptable Example 3 *(for companies with principal executive offices inside the U.S.)*

As highlighted below, a company may provide additional information related to its directors below the matrix.

Board Diversity Matrix (As of March 12, 2022)				
Total Number of Directors	8			
	Female	Male	Non-Binary	Did Not Disclose Gender
Part I: Gender Identity				
Directors	2	6	0	0
Part II: Demographic Background				
African American or Black	0	1	0	0
Alaskan Native or Native American	0	0	0	0
Asian	0	2	0	0
Hispanic or Latinx	0	0	0	0
Native Hawaiian or Pacific Islander	0	0	0	0
White	2	3	0	0
Two or More Races or Ethnicities	0	0	0	0
LGBTQ+	0			
Did Not Disclose Demographic Background	0			

Directors who are Military Veterans: 1
Directors with Disabilities: 2
Directors who identify as Middle Eastern: 1

Figure 1

On August 6, 2021, the Securities and Exchange Commission (SEC) approved the Nasdaq Stock Market's (Nasdaq) proposal to amend its listing standards to encourage greater board diversity and to require board diversity disclosures for Nasdaq-listed companies. The new policy calls for issuers to disclose diversity data, and then "comply or explain" as to whether its board contains at least two diverse candidates (1 woman + 1 visible minority or LGBTQ+)

Why? Nasdaq noted that more than 75% of its currently listed companies would not comply with its proposed board diversity requirements.

NASDAQ Board Diversity Disclosure Matrix

Nasdaq's Board Diversity Rule requires companies listed on Nasdaq's U.S. exchange to:

- publicly disclose board-level diversity statistics annually using a standardized template (Figure 1); and
- have, or explain why they do not have, diverse directors.

How You Will be Evaluated

Board Diversity Matrix for				
As of (DATE)				
To be completed by Foreign Issuers (with principal executive offices outside of the U.S.) and Foreign Private Issuers				
Country of Principal Executive Offices				
Foreign Private Issuer	Yes/No			
Disclosure Prohibited Under Home Country Law	Yes/No			
Total Number of Directors	#			
	Female	**Male**	**Non-Binary**	**Did Not Disclose Gender**
Part I: Gender Identity				
Directors	#	#	#	#
Part II: Demographic Background				
Underrepresented Individual in Home Country Jurisdiction	#			
LGBTQ+	#			
Did Not Disclose Demographic Background	#			

Figure 2

NASDAQ Board Diversity Disclosure Matrix

Foreign Issuers (Figure 2) can meet the diversity objective by including two female directors, and all companies with five or fewer directors can meet the diversity objective by including one diverse director.

How You Will Be Evaluated

- Starting 2022, BlackRock's proxy voting guidelines mention having at least two women and at least one director who identifies as a member of an underrepresented group for U.S. securities.
- UC Investments will vote against incumbent Nominating Committee members and the Board Chair if the board is not at least 30% diverse or the board lacks at least one woman and **one racially-diverse director.**
- NEI will withhold from incumbent members of the nominating committee where the board appears to lack racial/ethnic diversity – **there is not at least one racially/ethnically diverse director.**
- Trillium will vote AGAINST/WITHHOLD from the board nomination committee for a lack of diversity, where diverse is defined as 40% of the board being women **and 30% of the board being persons of color.**
- Boston Common will vote against the nomination of directors where the board does not have a minimum of 25% women and **at least one racial minority** after the election.
- First Affirmative will withhold votes for members of the Nomination Committee in situations where the board lacks racial diversity, defined as **at least one director of color**.

What Happens If You Don't Change

- While the focus in previous years has long been on financial activism as the primary driver for governance changes, we believe a shift is occurring: social activism focused upon diversity, particularly as it relates to BIPOC and gender diversity, is increasingly becoming a driving force in terms of how a board thinks about its refreshment process.

- We believe the pressure and focus we have seen on Say-on-Pay votes may soon be replaced by an SOD movement – **Say-on-Diversity**. This could come in many forms such as standalone proposals or by more clearly integrating diversity targets into compensation metrics.

- Failure to deliver on BIPOC diversity can also leave open an avenue for activist attacks, and activists know they can leverage a lack of diversity in a campaign. For example, activist Bill Ackman of Pershing Square has mused he wants to run a proxy contest with a diverse, all-female, ethnic slate, noting he was sure it would win hands-down.

What Happens If You Don't Change

In the past several years, shareholders have not been hesitant to use litigation against companies to increase diversity. Among the tools that they may use is requesting companies to conduct Diversity, Equity, and Inclusion audits which includes a objective and holistic analysis of a company's policies, practices, products, services and efforts to combat discrimination related to gender or race and identify areas of improvement. Shareholders may also submit proposals related to workplace diversity and racial equity or launch social and political campaigns.

Bank of America, other firms face call for audit of racial equity policies

Citi will be the first Wall Street bank to agree to a racial audit

Amazon to conduct racial equity audit led by former US attorney general

What Shareholders Want to Know

STRATEGY

- What role does diversity play in your company and does your board share these perspectives?
- What steps are you taking to ensure the widest range of perspectives?

DATA

- What is the composition of your company globally as well as the board on dimensions such as gender, race and ethnicity, age?

PIPELINE

- Are you searching in traditional candidate pools only or are you considering candidates who can bring diverse perspectives and experiences?

BOARD OVERSIGHT

- How does your board execute its oversight role in diversity and inclusion?
- What are the board's goals related to racial and ethnic diversity?

METRICS

- What diversity goals exist? How are they progressing, and how do they compare to peers?
- Is your executive compensation program tied to achieving diversity goals?

Here's What You Can Do - Kingsdale's View

- The **“S” in ESG** – **the social aspect** –is now a mainstream topic and has firmly been placed at the forefront. This aspect covers a wider range of topics, such as addressing employee and community needs, and taking a social or political stance on critical issues
- Provide disclosure on the **percentage of directors and senior management that represent BIPOC and racialized communities** and other related policies, practices, and actions
- Adopt a target for diversity representation at both board and leadership levels with a **specific timeline and action plan**. For example, the BlackNorth Initiative has set a goal of 3.5% executive and board roles to be held by Black leaders by 2025
- **Establish diversity councils and leverage corporate resources** — donations, investments, volunteer opportunities — to work with members of the BIPOC and racialized communities
- All non-CBCA companies, especially constituents of the Composite Index, should consider **voluntarily disclosing data on the ethnic diversity** of its directors
- Make diversity a top priority and **adopt a quantified target for representation**

Here's What You Can Do — Kingsdale's View

- Review the **skills matrix of incumbent directors to identify gaps and opportunities**, and build a board for the future
- **Expand the candidate search pool**; consider varying experiences, advertising in ethno-specific publications or partnering with cultural organizations
- At all levels of the organization, but especially at board and management levels, **develop targeted recruitment programs** or partner with ethno-cultural organizations to advertise positions as they become available
- **Run your recruitment process like a sports team;** scouts find talent *not* from rich neighbourhoods where individuals have the means to realize their potential but from underserved communities where talent is trapped under poverty. They invest in these athletes, sometimes at a great expense. But this investment pays off when the athletes start to contribute to the team while also transforming their entire community because of their success. If Corporate Canada took the same approach, we would uncover a pool of untapped talent which would make our business, country, and world a better place
- Ensure **succession planning is up-to-date** and includes a pipeline of diverse candidates for consideration when seats become available

Here's What You Can Do — Kingsdale's View

- ☑ Incorporate key metrics in **executives' incentive compensation programs** – for those who have already linked ESG metrics to compensation, ensure that there are specific and measurable goals tied to diversity, specifically for the representation of BIPOC and racialized communities

- ☑ Companies will need to **evaluate all aspects of their business**, such as corporate partnerships, sponsorships and supplier chains, to ensure their business practices align with their stated beliefs

- ☑ It's not sufficient to only recruit leaders from BIPOC and racialized communities to the board but also **provide the training and development tools** they will need to succeed in those roles as for many of them, they would be doing this for the first time

Case Studies: Canada's Best Diversity Employers 2023

Canada’s Best Diversity Employers recognizes employers across Canada that have exceptional workplace diversity and inclusiveness programs.

Criteria include successful diversity initiatives for employees from five groups: women; members of visible minorities; persons with disabilities; Indigenous peoples; and lesbian, gay, bisexual and transgendered/transsexual (LGBTQ2S) peoples.

Scotiabank Manulife Nutrien

Source: https://www.canadastop100.com/diversity/

Canada's Best Diversity Employers 2023: Notable Winners and Kingsdale Clients

Scotiabank

- created Scotia Inspire, a seven-month program for diverse leaders in 2021 -- aimed at high-potential directors and vice-presidents, the program provides mentorship from senior leaders, targeted development sessions and opportunities to build their network across the bank
- established ambitious commitments for 2025, including doubling the current representation of Indigenous employees across all levels of the organization, and increasing representation of persons with disability by 20 per cent (also across all levels of the organization)
- mandatory workplace safety and inclusion, Indigenous cultural competency training, global LGBT+ Ally certification program, mental health workshop for people managers, listening sessions across various business lines and geographies

Manulife

- has a diverse supplier program led by a dedicated supplier diversity officer and team (provides opportunities to businesses owned by minorities, women, LGBT, people with disabilities, veterans, and service-disabled veterans)
- CEO meets quarterly with ERG leaders from different regions to listen, learn and provide support, ERGs include Global Women's Alliance (2,900 members in Canada) and the Toronto-based Women @ Manulife, PROUD (Professionals Reaching Out for Unity and Diversity), AMP (Association of Multicultural Professionals), among others

Nutrien

- develops diverse pipelines for future talent through scholarships and internships for Indigenous and female students.
- recently hired its first vice-president of equity, diversity and inclusion and created a global centre of excellence for ED&I expertise -- the organization is also working to develop a global Equity, Diversity and Inclusive Growth Strategy that accounts for regional contexts in all of its operating territories, as well as the creation of an ED&I Champions network for employees who want to learn and help drive change
- set a goal to increase gender diversity in senior leadership roles to 30% by 2025 and maintains 30% gender diversity on its board

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